VS Industry (VSI MK)

4QFY25: Below Expectations; Value Emerges After Fearful Selldown

BUY (Maintained)	
Share Price	RM0.59
Target Price	RM0.76
Upside	28.8%

Highlights

- Results missed expectations after the Liberation Day disruption, dragged by higher-than-expected losses from the Philippines (PH) and HT Press, alongside cost-down initiatives.
- On the bright side, PH losses are expected to narrow and break even from Mar 26, while cost-downs and losses from HT Press are likely to normalise.
- Value emerges; VS is trading at 14.8x FY26F PE (after earnings cut of 14%/4% for FY26/27; -0.5SD below its seven-year mean) and 0.96x FY26 PBV (-2SD), levels that are near the troughs last seen during the MCO lockdown (0.83-0.88x). Maintain BUY. Target price: RM0.76 (from RM0.82).

4QFY25 Results

Year to 31 Jul (RMm)	4QFY25	qoq % chg	yoy % chg	FY25	yoy % chg
Sales	858.8	(5.6)	(29.2)	3,787.8	(10.8)
Gross Profit	70.9	(16.6)	(32.0)	231.2	(7.7)
EBIT	(25.7)	(163.5)	(115.9)	95.6	(70.9)
PBT	(30.6)	(186.1)	(119.6)	75.0	(75.8)
Net Profit	(33.0)	(239.0)	(126.1)	36.7	(85.1)
Core net profit	(18.4)	(177.6)	(123.0)	51.3	(75.5)
Sales					
Malaysia	599.1	(16.3)	(33.2)	2,854.4	(5.6)
Singapore	150.1	11.2	(26.6)	585.6	(33.1)
Indonesia	75.7	29.5	(32.4)	313.8	(10.2)
PBT					
Malaysia	(13.5)	(133.9)	(113.4)	96.9	(62.5)
Singapore	0.6	(68.9)	(37.4)	3.0	(15.5)
Indonesia	2.4	(176.2)	(62.0)	1.1	(82.4)

Source: VS, UOB Kay Hian

Analysis

- **Below expectations.** VS Industry (VS) reported 4QFY25 core net losses of RM18.4m (3QFY25:RM23.8m; 4QFY24:RM80.2m), narrowing FY25 core NP to RM51.3m (-76% yoy) which came in below expectations at 70%/48% of our/consensus full-year numbers. The core numbers have been adjusted for impairment losses related to PPE, receivables and others totalling RM14.6m.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	3,997	4,917	5,317
EBITDA	413	223	360	440	468
Operating profit	287	96	231	310	334
Net profit (rep./act.)	246	37	157	216	234
Net profit (adj.)	210	51	157	216	234
EPS	5.3	1.3	4.0	5.5	5.9
PE	11.1	45.2	14.8	10.7	9.9
P/B	1.0	1.1	1.0	1.0	0.9
EV/EBITDA	5.5	10.2	6.3	5.2	4.9
Dividend yield	3.2	1.4	2.0	2.8	3.0
Net margin	5.8	1.0	3.9	4.4	4.4
Net debt/(cash) to equity	6.7	(3.3)	0.4	4.5	2.4
Interest cover	22.5	11.4	15.3	18.7	19.9
ROE	11.1	1.7	7.1	9.2	9.4
Consensus net profit	n.a	n.a	203	255	340
UOBKH/Consensus (x)	n.a	n.a	0.77	0.85	0.69

Source: VS, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	**Information Technology**
Bloomberg ticker	VSI MK
Shares issued (m)	3,854.5
Market cap (RMm)	2,274.2
Market cap (US$m)	540.5
3-mth avg daily t'over (US$m)	3.7

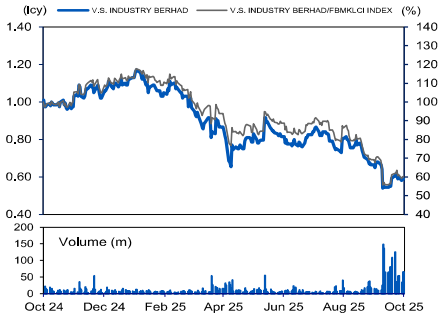
Price Performance (%)

52-week high/low				RM1.18/RM0.52
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(11.3)	(28.5)	(31.2)	(42.8)	(47.4)

Major Shareholders

	%
Employees Provident Fund	10.0
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- The negative deviation was due to higher-than-expected losses from PH (RM20.5m) and HT Press (RM13.1m) alongside cost-down initiatives (losses of RM11.2m). On the bright side, PH losses are expected to narrow and break even from Mar 26, while both cost-down and losses from HT Press are expected to normalise.
- **FY25 revenue dropped 11%,** on weaker loadings from all regions. Core net profit declined 76% yoy, dragged by higher operational losses from PH, cost-down initiatives and HT Press (amounting to RM81.7m).
- **Revenue contracted 6% qoq,** weighed down by post-Liberation Day operational disruptions (deferred order delivery requested by customers), while core net losses of RM18.1m underscored the impact of suboptimal customer loadings, cost-down pressures and lingering operational inefficiencies.
- **Near-term headwinds will persist,** but could ease gradually. We expect the consumer EMS industry's outlook, structurally tied to white goods demand and operating on relatively thinner margins, to remain challenging as the 19% tariff continues to elongate end-customer spending cycles, thereby slowing order flows. VS, with around 50% of revenue exposure to US customers, could remain vulnerable, hence warranting another round of earnings revision. On the flip side, we anticipate a sequentially stronger 1QFY26, underpinned by festive season restocking and order backloading. Looking beyond, potential trade diversion benefits could act as a structural anchor, setting the stage for longer-term growth resilience for VS.
- **New foray – A major rerating.** VS continues to attract interest from new MNC customers thanks to the entrenched ecosystem in Malaysia, with discussions on potential contracts currently in the early evaluation stages. Among these opportunities, a meaningful collaboration with a medical industry customer appears imminent. While the group has already initiated PCB assembly operations for this medical client, we are not including any new contract wins in our projections at this point. In terms of sensitivity analysis, securing a RM300m contract with full contribution in FY26 on a net margin of 3.9% could lead to an earnings accretion of 7%.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM0.76** (from RM0.82), still based on 16x 2026F PE (-0.5SD below average seven-year forward PE). This valuation reflects a prudent stance amid the near-term headwinds, and continues to offer decent upside potential.

Earnings Revision/Risk

- Cut FY26/27 earnings by 14/4% to account for lower loadings and margin assumptions.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

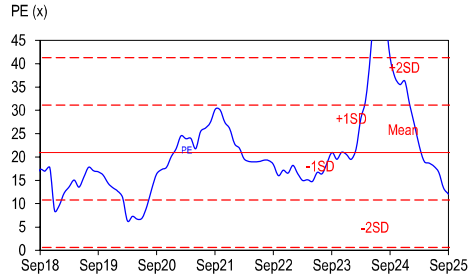
- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	3,997	4,917
Key customer	2,007	1,988	2,414	2,933
Customer Z	400	352	285	313
China	30	30	40	73
Indonesia	350	332	349	349
New key customers	1070	400	500	800
Others	338	372	409	450
US$/RM	4.40	4.30	4.40	4.40
Core net margin (%)	4.9%	1.0%	3.9%	4.4%

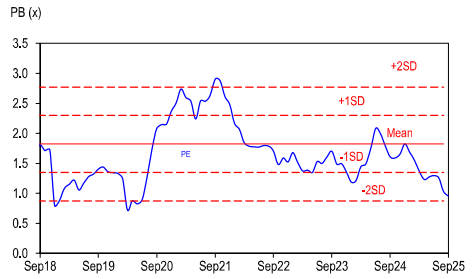
Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: UOB Kay Hian

Seven-Year Forward PBV Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,787.8	3,996.7	4,916.6	5,316.7
EBITDA	222.6	360.3	439.7	467.6
Deprec. & amort.	127.0	129.7	129.8	133.4
EBIT	95.6	230.5	309.9	334.1
Associates	(1.1)	2.5	2.5	2.5
Net interest income/(expense)	(19.5)	(23.5)	(23.5)	(23.5)
Pre-tax profit	75.0	209.5	288.9	313.1
Tax	(42.0)	(55.1)	(76.2)	(82.6)
Minorities	3.7	2.3	3.2	3.5
Net profit	36.7	156.8	215.9	234.0
Net profit (adj.)	51.3	156.8	215.9	234.0

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	912.5	932.8	953.0	969.6
Other LT assets	293.0	295.5	298.0	300.5
Cash/ST investment	858.7	777.4	679.2	724.3
Other current assets	1,661.3	1,892.4	2,285.3	2,457.3
Total assets	3,725.5	3,898.1	4,215.5	4,451.6
ST debt	454.3	454.3	454.3	454.3
Other current liabilities	702.0	766.7	935.6	1,010.9
LT debt	332.9	332.9	332.9	332.9
Other LT liabilities	85.0	85.0	85.0	85.0
Shareholders' equity	2,153.1	2,263.2	2,414.9	2,579.2
Minority interest	(1.7)	(4.0)	(7.2)	(10.7)
Total liabilities & equity	3,725.5	3,898.1	4,215.5	4,451.6

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	218.7	219.4	368.0
Pre-tax profit	75.0	209.5	288.9	313.1
Tax	(42.0)	(55.1)	(76.2)	(82.6)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working Capital Changes	336.9	(86.6)	(144.2)	(17.1)
Other operating cashflows	17.2	8.0	8.0	8.0
Investing	(139.1)	(114.9)	(114.9)	(114.9)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.9	3.7	3.7	3.7
Financing	(257.2)	(15.4)	(33.0)	(38.4)
Dividend payments	(77.3)	(46.7)	(64.3)	(69.6)
Proceed from Borrowings	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	50.0	50.0	50.0
Others/interest paid	(19.6)	(18.7)	(18.7)	(18.7)
Net cash inflow (outflow)	134.6	88.4	71.6	214.7
Beginning cash & cash equivalent	755.0	858.7	947.1	1,018.7
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.7	947.1	1,018.7	1,233.4

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	9.0	8.9	8.8
Pre-tax margin	2.0	5.2	5.9	5.9
Net margin	1.0	3.9	4.4	4.4
ROA	0.9	4.1	5.3	5.4
ROE	1.7	7.1	9.2	9.4
Growth				
Turnover				
EBITDA	(10.8)	5.5	23.0	8.1
Pre-tax profit	(46.1)	61.8	22.0	6.3
Net profit	(75.8)	179.5	37.9	8.4
Net profit (adj.)	(85.1)	327.1	37.7	8.4
EPS	(75.5)	205.6	37.7	8.4
Leverage	(75.5)	205.6	37.7	8.4
Debt to total capital				
Debt to equity				
Net debt/(cash) to equity	26.8	25.8	24.6	23.5
Interest cover	36.6	34.8	32.6	30.5

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